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MANAGING THE CORPORATE INTELLIGENCE FUNCTION

Professor Sumantra Ghoshal
Sloan School of Management

August, 1985 WP# 1697-85

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GROWING IMPORTANCE OF ENVIRONMENTAL INTELLIGENCE

"Environmental turbulence" is no longer merely a fashionable obsession of business academics. From colorful descriptions in hard-cover books, it has now entered the agenda of corporate board meetings. Hopes and fears about unpredictable and discontinuous changes in competitive, technological, regulatory or even social environments have become an integral part of the daily concerns of managers, particularly in medium and large enterprises.

A number of inter-related developments have been responsible for the enhanced awareness of corporate managers regarding the need to monitor changes in the external environment. Three phenomena, in particular, seem to have been most critical.

First, the trend of globalization, manifest in the business environment of the 1970's, has become increasingly dominant in the 1980's. Most medium and large businesses are now required to contend with competitors from different countries, with different cultural, administrative and physical resource-bases and competencies. While this trend of global competition has affected multinational corporations most seriously, even firms with purely domestic operations have not been exempt from its consequences as multinational competitors have emerged in businesses that have traditionally been purely domestic in nature.

Such competition among firms with vastly differing societal origins has made the need for environmental

intelligence both more compelling and more complex. When all competitors are based in the same country and incur costs in the same currencies, a number of factors need not be explicitly monitored because they are common and any change affects all competitors equally. Besides, information on such factors are often received by firms almost automatically, without any conscious effort. With global competition, in contrast, environmental changes such as changes in relative wage rates, exchange rates, interest rates or public policies of countries affect different competitors differently and therefore need to be carefully watched. While some of such information may be available in the routine course of business; not all are and a formal system is required to scan changes in the many national environments which can potentially affect the firm.

Second, the buffer between a firm and its environment has been eroded as life-cycles of products and technologies have shortened. To defensively react to changes after they have become explicitly manifest is no longer a feasible strategy in an era of increased competition and enhanced first-mover advantages. The benefits of early- warning and quick response have increased enormously.

Finally, the "catch-up" phenomenon has dulled the edges of most traditional instruments for developing durable competitive advantages. In most industries, major competitors are almost indistinguishable in terms of technological competence or the scale of their operations. No one enjoys absolute hegemony and relative competitive positions are determined not on the basis of a technological or commercial breakthroughs in the distant past but by how well each firm could cope with the last wave of change.

CORPORATE INTELLIGENCE UNITS

A common organizational response to the increased need for external intelligence has been to create formal intelligence units for monitoring and interpreting different sectors of the environment. Such units carry different labels : Environmental Scanning, Research and Analysis, Strategic Intelligence, Country Risk Analysis and Futures Group are some examples. They are usually created within the corporate planning departments, though some special intelligence functions such as technology monitoring or competitor analysis are often integrated with functional departments such as R&D or marketing. In fact, there are very few, if any, large corporations either in the United States or abroad that do not have such an unit devoted full-time to the tasks of acquisition, interpretation and internal circulation of environmental information.

Often, however, such a unit has proved to be singularly ineffective. The following are some of the more common reasons of why they have failed :

- The unit is headed by a bright, freshly- minted MBA, or a PhD in economics or political science. In the worst case, he sees the task as one of educating a bunch of uninformed managers and starts bombarding everyone with highly academic notes based on his formidable tool-kit of analytical techniques. These quickly degenerate from being perceived as refreshingly different to being seen as totally useless. Ultimately, the missionary of new wisdom leaves the organization, usually for graduate school or a consulting firm, convinced that the firm is beyond redemption. Otherwise he is fired. The unit, however, is not wound up but is just forgotten about.

  More typically, however, such a person makes an honest effort to understand the organization and its information needs but gets little support from the line managers. He is seen as an outside expert and is pre-judged to be incapable of

understanding the intricacies of the business. Failing to obtain the support of the line managers, the new recruit falls back on his own strengths of producing academic monographs based on published information and the worst case scenario takes over.

- The unit acts as an advisory body to top-level corporate managers and is asked to comment on proposals at the last stage, when they are received for final approval. By this time the intricate social and political processes through which decisions are arrived at in large organizations have played themselves out: views about the proposal have hardened, sides have been taken and careers have been committed. At this stage, if the unit supports the proposal, it is seen as not contributing anything of value and if it opposes the proposal, it is seen as an auditor of sorts -- as "nay-sayers" who are to be challenged and overcome. Either way, it fails to get integrated with the rest of the organization and gradually ceases to have any impact on decision-making.

- Information is a principal source of power and recognition in organizations. To be effective, the intelligence unit requires information that are collected by managers in different parts of the organization. Managers, however, have no incentive for providing information to the unit since it does not offer any appropriable benefits. They prefer, instead, to pass information along their direct reporting hierarchy, in exchange for recognition, or to colleagues, through an informal system of barter. In other words, it is a classic problem of externality -- all managers like to have information from the intelligence unit but no one wants to contribute information to it.

These are but a few of the many problems that impede the effectiveness of a formal scanning or intelligence unit in large corporations. There are many others, some of which will be discussed later. The moot point is that simply creating a formal intelligence unit is rarely an effective means to meet the increasing intelligence needs of a firm. What is required is an organization-wide sensitivity to the external environment and a comprehensive system to develop corporate intelligence.

The intelligence function includes the acquisition of information, its circulation within the company so as to be available to managers who need such information, and its interpretation in terms of the possible impact on the goals and performance of the firm. These activities must be performed collectively by three different components of the organization : top managers, special staff in the intelligence unit, and the general body of line managers in different functional areas. Each of these groups have different competencies with regard to the tasks of collection, interpretation and circulation of different kinds of information. To overcome information pathologies, all these competencies need to be combined in an overall system and no group, in isolation, can put the whole puzzle together.

To understand how such a comprehensive intelligence system might work, let us consider the case of a large trading company based in the Far East. External information is a key resource for trading companies and this particular company has built up a formidable reputation as a fast growing and aggressive player in the field. Its principal competitors are far larger in size, have considerably greater experience in the business and possess more extensive networks of branches all over the world. Yet, this company has competed successfully, has kept up a remarkable growth rate and has built a reputation of being very nimble on its feet in spotting and exploiting opportunities.

THE INTELLIGENCE SYSTEM IN SINSONG TRADING

Sinsong Trading (1) is the primary international trading arm of a diversified business group that is one of the

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(1) disguised name

50 largest companies in Fortune's list of the biggest companies outside the United States. In 1984, Sinsong Trading had branches or wholly-owned subsidiaries in 60 countries, employed about 5000 people world-wide and conducted import, export and third country trade in over 120 countries generating an annual revenue of over $3 billion.

The intelligence function is the responsibility of the corporate planning department in Sinsong. Within this department, there are two sections that are devoted full-time to this task, viz., the Research and Information (RI) section and the Overseas Planning (OP) section.

The RI section specializes in dealing with publicly available information -- mostly in printed form -- provided by general and trade publications and by several private and government agencies. Its objective is to monitor overall economic, social, cultural and political developments in almost every country of the world, to review broad trends in different products and markets, and to analyze published studies on major suppliers, buyers and competitors. Its primary outputs are the following :

- Two fortnightly publications, one to circulate significant economic and political developments that have taken place over the preceding fortnight and the other a bibliography of all important articles, pamphlets, books, etc. that have been noticed during the same period and that are considered as potentially relevant to the business of the company. Both the reports are sent to each and every manager of the company and the managers, in turn, are expected to circulate them among their staff.

- A monthly consolidation of key economic statistics for approximately 100 countries in which the company has significant business involvement. The report is published as a pocket size booklet that managers can always have in their possession for ready reference. Information contained includes, for every country, latest figures for imports and exports, GNP, interest rates, levels of

unemployment and inflation, and the exchange rates for all major international currencies.

- o A major bi-annual compilation of detailed information on 50 key markets in the world. Titled "Management Environment", the report contains brief descriptions of the countries, their principal export and import commodities including major sources and destinations, external debt and its implications on trade policies, trade balance with detailed breakdown for most important products, GNP with category-wise breakup, and information about demand, competition and prices on a number of specific products that are of interest to the company. The publication is based on DRI reports, OECD publications, Wharton Country Reports, market reports from BERI and Frost and Sullivan, a host of journals including Euromoney and Institutional Investor, and special reports from private and public research institutions in Japan, Europe and the United States.

Besides these periodic publications, this section also maintains the "data room", i.e., the company library and carries out special research on topics suggested by the top management of the company.

The section is headed by a manager who, before joining the company, was a political and economic correspondent for a major national newspaper. Neither he nor any of the other four managers in the section have any line experience within the company and their entire career in the company has been spent in the planning or other staff departments.

The Overseas Planning (OP) section, the second unit devoted to the intelligence function, deals primarily with environmental data relevant for current business. Every overseas office of the company employing more than five people send a daily report to this section containing primarily market intelligence about customers and competitors. Offices with less than five employees are required to send such reports at least thrice every week. These reports are telexed by the managers of the branches at the end of every working day. Failure to send

the daily reports is taken seriously and requires very good reasons. The reports had come in from Iran even during the worst days of the Iranian revolution. Not a single report was missed by the Beirut office when the city was under seige -- being shelled by three different armies.

To submit these reports the managers of the branches, in turn, require all field officers to turn in a daily report and there exists an unwritten law in the company that officers must include at least one item of external information each day in their reports to the branch manager. Through this daily reporting system, a great deal of pressure is exerted on all field personnel of the company to actively seek information through all their external contacts.

The OP section has both a communication and an interpretation function. On a daily basis it summarizes the important items in the daily reports received from the branches, translates them into the local language, and circulates them to all important managers of the company. Managers are expected to read the report and to circulate it within their departments on the same day. The report usually contains just data, without analysis or interpretation.

The analysis is communicated in a separate and highly confidential report which is sent in sealed envelopes only to senior managers who must read and destroy them immediately. The following is an actual example of such an analysis :

> "If Iraq is ordering such large quantities of army uniform materials suddenly, fresh army recruitments in a large scale can be anticipated. This may mean that an escalation of the war is imminent. That, in turn, implies that Iraq may face further strain on its resources, particularly with regard to the availability of foreign exchange for payment of non-defence materials. They may, therefore, defer payment on such supplies, even if LC´s are opened. We are heavily involved in supplying them with building materials, chemicals and fertilizers. Caution must be exercised on all future supplies and the payment situation must be monitored very closely."

While the daily reports from overseas branches are the main information sources for the OP section, they are not the only ones. The other major source of information for the section are the tour reports of headquarter managers visiting foreign markets. Each manager must submit a detailed tour report, covering not only what he did during the tour but also his general impressions about the market(s), his conjectures about business possibilities that may or may not be related to his own responsibilities, and also any significant piece of environmental information collected by him during the tour. A copy of this report circulates through the manager's chain of command but another copy goes directly to the OP section where the information is analyzed and incorporated in the daily reports, as appropriate. In 1983, Sinsong headquarter managers made over 700 business trips abroad, generating over 4000 pages of tour reports. These were, in many cases, the richest source of information for the OP section.

The manager of the OP section had spent over eight years in different operative positions in the company, both in product divisions in the headquarter and in major international branches, before being transferred to the corporate intelligence unit. All other managerial staff in the section had a minimum of five years of field experience within the company.

THE TWO COMPONENTS OF ENVIRONMENTAL INTELLIGENCE

The environmental intelligence system of Sinsong is quite typical of similar systems in many large firms, particularly in the Far East. In effect such a system decomposes the environmental intelligence function into two distinct components, one for analysis of the general environment and the overall business climate and the other for monitoring the specific business situation.

This distinction is based on the view that a firm uses two kinds of environmental information for two related but different purposes. Information from the immediate business environment -- about current competitors, existing technologies, and product-markets in which the firm operates -- is required on a day-to-day basis for taking both operational and strategic decisions. Information from the broader environment -- about general social, economic, political and technological changes, for instance -- are, in contrast, utilized primarily for long term planning and strategy-making. The distinction is fuzzy and the two kinds of information clearly overlap. But it seems useful to make this distinction since the systems for acquiring and interpreting the two kinds of information differ significantly. For instance:

The information sources are different

Figure 1 shows the relative importance of different information sources for acquiring different kinds of environmental information. It is based on a survey of scanning practices of managers in which 111 managers from 16 of the largest companies in The Republic of Korea (South Korea) participated.[1] The height of each bar in the diagram represents the relative importance of the particular kind of environmental information; the height of each component of the bar represents the relative usefulness of the particular source in providing such information.

This picture of how environmental information flows into the organization may differ in different countries and

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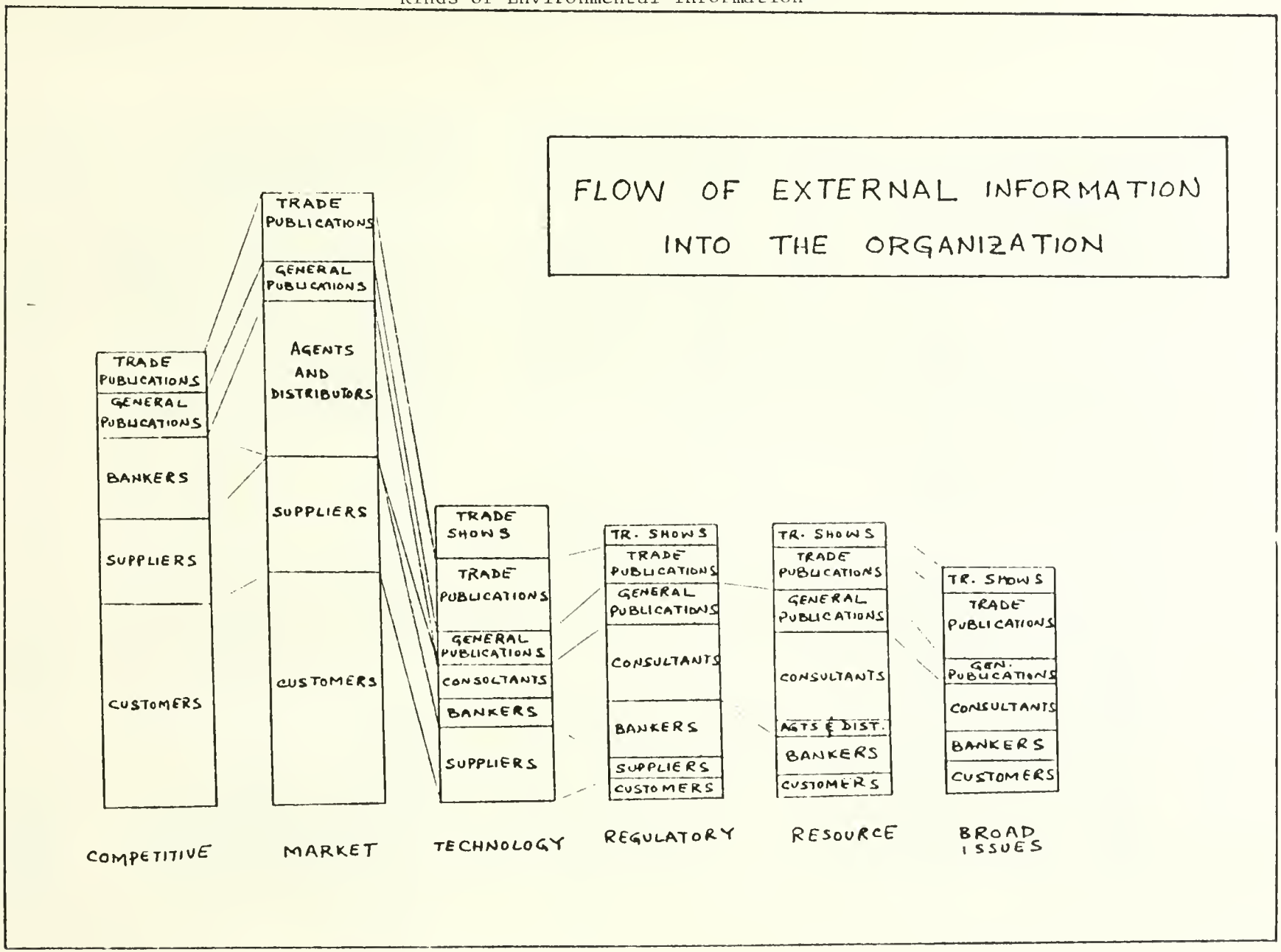
[1] Full details of this study can be found in the author's PhD thesis, "Environmental Scanning : An Individual and Organizational Level Analysis", MIT, 1985.

FIGURE 1: Relative Usage of Sources for Different Kinds of Environmental Information



industries. However, the pattern is broadly consistent with similar studies conducted in a range of industries in the United States.[2]

Information about the immediate business environment is usually available only from business associates such as customers, suppliers, trade associations, bankers, etc. Some of it is available from public sources but by the time they become public, they also become much less useful as a source of differential advantage. Even consultants, though many exist to provide such information, are not very effective since generally they provide information that is stale and not appropriable for immediate business purposes.

Information about broad technological, social, economic and political changes, in contrast, are most efficiently obtained from special sources that exist within the public domain. General and trade journals, special government publications and reports from academic institutions, think-tanks or consulting organizations are among the principal sources for such information.

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2 Similar findings, based on his study of scanning practices of U.S. firms in the chemical industry, have been reported by Frank Aguilar in Scanning the Business Environment, McGraw-Hill, New York, 1967. R.F.Collings and W.J.Keegan investigated scanning behavior of American managers in the financial services industry and in multinational corporations, respectively, and their descriptions of usage of different information sources were also generally consistent with the analysis presented in Figure 1. For references of these and many other research studies on scanning, see author's PhD thesis, "Environmental Scanning : An Individual and Organizational Level Analysis", MIT, 1985.

Managers who can acquire the two kinds of information are different

Information on the immediate business environment can be acquired only by managers who have direct access to the industry grapevine, i.e., line managers who meet representatives of customers, suppliers, competitors and other industry members on a regular basis and are hooked to the appropriate network. Membership of the network is required not only to position oneself within this flow but also to judge relevance and reliability through experience and trial and error. Staff managers neither receive such "hot information" from the market, nor can they readily discern their implications because of being divorced from the context.

For acquiring more general technological, economic, social or political intelligence from public sources, in contrast, a manager must be specially trained to know of the specific sources that are most useful for particular kinds of information and must also be able to interpret the implications of such general developments on the specific businesses of the firm. Academic training, analytical skills and access to such sources are useful in both acquiring and interpreting such information and special intelligence staff are particularly suitable for both purposes.

The information-acquisition processes are different

Specific task-related information is usually acquired through surveillance, i.e., by operative managers being sensitive to the continuous flow of information around them and by picking up what they consider to be relevant and reliable. Often, the most important piece of information is picked up quite by chance, in the course of a discussion with a reseller or a customer.

General environmental intelligence, on the other hand, is usually acquired through active search rather than through general surveillance. In other words, a firm must pre-determine its needs as far as such broad social, economic, political and technological informations are concerned, must identify the sources and must acquire what it wants through structured research. The process is much more directed and focused than the relatively passive surveillance and monitoring through which much of task-related information is collected.

As would be manifest from the preceding description of the intelligence system of Sinsong, line managers and special intelligence staff play very different roles in acquiring, circulating, interpreting, and using the two different kinds of environmental information (see Figure 2). The task of monitoring the broader environment can be almost exclusively dealt with by the corporate intelligence unit with very limited involvement of operating managers. Expert intelligence staff, skilled in disciplines such as economics, political science or the relevant technologies, can directly acquire such information from sources such as publications, university contacts, consultants and research organizations. They can also carry the principal responsibility for analysis and interpretation of such information in terms of the potential impact on the firm. The processed information can also be circulated by them to operating managers so as to serve as inputs to the long term planning process.

For monitoring the immediate business environment, on the other hand, the principal responsibility for both acquisition of information and its interpretation has to lie with operating managers and the main function of the intelligence unit becomes one of communication and circulation of such information within the company.

INTELLIGENCE BUILDING TASKS	IMMEDIATE BUSINESS ENVIRONMENT	BROAD BUSINESS CLIMATE
INFORMATION ACQUISITION	LINE MANAGERS	INTELLIGENCE UNIT
INTERNAL CIRCULATION	LINE MANAGERS / INTELLIGENCE UNIT	INTELLIGENCE UNIT
INTERPRETATION/ USE	LINE MANAGERS	LINE MANAGERS / INTELLIGENCE UNIT

FIGURE 2 : ROLES OF LINE MANAGERS AND THE CORPORATE INTELLIGENCE UNIT IN THE TWO COMPONENTS OF ENVIRONMENTAL INTELLIGENCE

However, to serve even this role as a corporate PABX for day-to-day operational intelligence, managers of the intelligence unit need the ability to relate the information to their possible business implications and to identify managers who might profit from having it. In other words, managers of the intelligence unit responsible for maintaining the internal flow of specific task-related information need to have at least some experience with the businesses of the company : academic or analytical skills are not as important for meeting the demands of this role.

ENVIRONMENTAL INTELLIGENCE AND THE DECISION MAKING PROCESS

The most vexing problem in environmental analysis is that the resulting intelligence is rarely used by firms for actual decision making. Considered from a very practical viewpoint, information and intelligence, irrespective of quality or appropriateness, are worthless unless used. Unfortunately, in the course of my research on the environmental intelligence function of firms, I repeatedly confronted the situation of managers busily engaged in developing increasingly sophisticated computer-based techniques for analyzing environmental change, oblivious of the fact that their reports are rarely used by anyone within the firm. In many cases operative managers keep such reports within easy reach and are lyrical about how useful they are for making difficult judgement calls. On being asked to recall the contents, however, it becomes manifest that the reports are not even opened. Junior managers feel that the reports are useful for top managers, top managers are confident that junior managers are benefiting enormously from them. In effect, the whole exercise becomes a fashionable symbol of the firm being "progressive", and is carried out for its own sake.

There are many reasons for this permanent separation between environmental intelligence and decision making. Business systems are highly complex and involve processes that are heterogeneous, multidimensional and causally confused. For most firms, causes and effects of business performance are extremely difficult to disentangle, as are facts and values. Environmental analysis techniques, in contrast, are usually analytical and reductionist in their approach. They oversimplify the richness of reality and are therefore ignored by managers who have to take a holistic view of situations and unlike some economists, cannot assume reality away.

Besides, information that is received in the course of the decision making process has a far higher chance of use than information that is stored within the organization. Going from files to user-friendly, on-line, relational data-bases has clearly eased the problem but has not overcome it. Information stored in files or computers is mostly used for packaging proposals and rarely for learning or for initiating and evaluating alternative courses of action. Most environmental analysis systems ignore this reality and assume that managers will use information available in storage. Managers, alas, do not.

Usually, environmental intelligence is provided too late in the decision process and at too high a level in the decision hierarchy. As has been widely documented, decision making in firms is highly influenced by internal social and political considerations and follows complex and convoluted processes of initiation, momentum-building, and final acceptance. By the time a proposal reaches senior levels, it has already acquired too much momentum to be changed without serious internal consequences. As I have suggested earlier, to use environmental analysis as a special intelligence source for top managers is perhaps the single most common reason why it ceases to have any effect on decisions.

Finally, there exists a complex set of interactions between information and its source that influences the way information is perceived and acted upon by managers. The same piece of information is seen differently when it is received from a favorite and trusted subordinate than when it is received from the manager of the intelligence section. A major reason why environmental intelligence is ignored is because the provider of such information, the manager of the intelligence section, is either not respected or not trusted. In all my discussions with managers in the intelligence function, this point has come out quite clearly : their biggest problem is not collection of information but their personal acceptability to managers. Such personal acceptability is a pre-requisite for their suggestions or analyses to be used. In most cases, such acceptability is difficult to develop because intelligence experts are seen as outsiders who do not understand the business, as auditors who come in the way of getting work done, and as lackeys of top managers with great nuisance potential.

How can environmental analysis be made more useful ? There are no simple answers to this question. However, the following are some of the ways in which firms have tackled the problem :

1. Making special efforts to involve junior and middle managers in operative functions :

In most situations, junior and middle managers, who actually carry out the day-to-day operations of the firm, are the most important sources of environmental information and also the most important consumers of external intelligence. Top managers, through their network of high-level personal contacts, can, once in a while, produce the dazzling coup of finding out about a forthcoming change of government policy or some highly confidential plans of customers or competitors. At times they also initiate major strategic moves and can greatly benefit from

advice of the intelligence expert. However, the bread and butter of the intelligence function depends on obtaining information from lower operative levels of the company and in making available environmental intelligence to the same level at which most proposals are initiated.

One mechanism for developing such involvement is to create intelligence task forces in different functional or geographic units. Such a mechanism has been successfully used in a large manufacturing multinational. In each subsidiary of the company as well as in all major departments in the headquarters, temporary task forces have been created which act as links between the unit and the corporate intelligence department. All communication between the units and the intelligence department are routed through these task forces which are temporary structures constituting junior managers who have been assigned this task as an additional responsibility, over and above their normal duties. They collate all intelligence acquired by the unit and pass them on to the headquarters and they also disseminate all intelligence reports received from the headquarter to other managers within the unit. Normally, this activity takes up about an hour of their time each day but most junior managers look forward to the task force assignment both because it is a positive signal about their performance and also because of the moderate budget that is made available to the task force for entertainment, subscription to journals, and other miscellaneous expenses.

The experience of the company so far is that such task forces are extremely useful in creating organization-wide sensitivity to the environment and also in involving junior and middle managers in both acquiring and using external intelligence. They create a bridge between the corporate intelligence function and the rest of the company. On the one hand, they educate the intelligence staff on the information needs of operational units and, on the other, they foster a

better appreciation among line managers regarding the function being served by the intelligence unit and also about the ways in which the intelligence department can be of help to the unit.

2. Depending more on gestalt than on storage :

In a large U.S. Fortune 100 firm, the manager of the Strategic Intelligence section, after being frustrated by the fact that his reports seemed never to be read by anyone, started a system of quarterly briefings. In these briefings he made audio-visual presentations on a range of topics to the senior managers of the firm. He started with profiles of competitors and gradually the attendance in such meetings improved. Soon he started covering broader subjects, such as the possible effects of changing demographic patterns on the firm's prospects over the next 25 years, and found to his delight that his presentations were being widely referred to in business meetings within the firm, even at the level of the CEO. What he wrote continued to be ignored but what he presented became an integral part of the shared context in which managers of the firm operated.

His learning from this experience was simple. External intelligence becomes most effective when it becomes a widely shared organizational gestalt. To make such intelligence actually useful, it is far better to focus on a few important topics at a time and to ensure -- through presentations, conferences or meetings -- that those few topics receive wide attention within the firm. Those discussions then become a part of the active memory of the organization by becoming a part of the memory of a large number of key individuals. In other words, his solution to the problem was to store environmental information, not in files or computer data-bases, but in the minds of managers.

3. Focusing on Information "Wants" and not on Information "Needs"

There are often wide gaps between information managers need and what they get or even want. They do not receive all the information they want or need and they receive a lot of information they do not either want or need. They also receive information they need but do not want.[3] This is represented diagrammatically in Figure 3.

Most approaches to environmental analysis are based on the premise that the objective of the analysis is to identify the information a manager needs and then to provide that information, as needed. The assumption is that managers will see the usefulness of the information they really need even if they did not want it at the beginning.

This assumption overlooks the complex set of cognitive and political issues that underlie a manager's determination of what information is required. It is perhaps naive to assume that information, by itself, can change the complex "world-view" that determines information wants. To an extent, environmental analysis fails because of that assumption.

Environmental intelligence can prove to be more useful if it can strike a better balance between information managers currently want and information that analytical methods suggest as their real needs (even if we assume that such methods somehow determine the needs quite accurately). There is usually a substantial area of overlap between information wants and

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[3] This concept was suggested by Frank Aguilar in Scanning the Business Environment, McGraw-Hill, 1967. The diagram is also reproduced from this book.

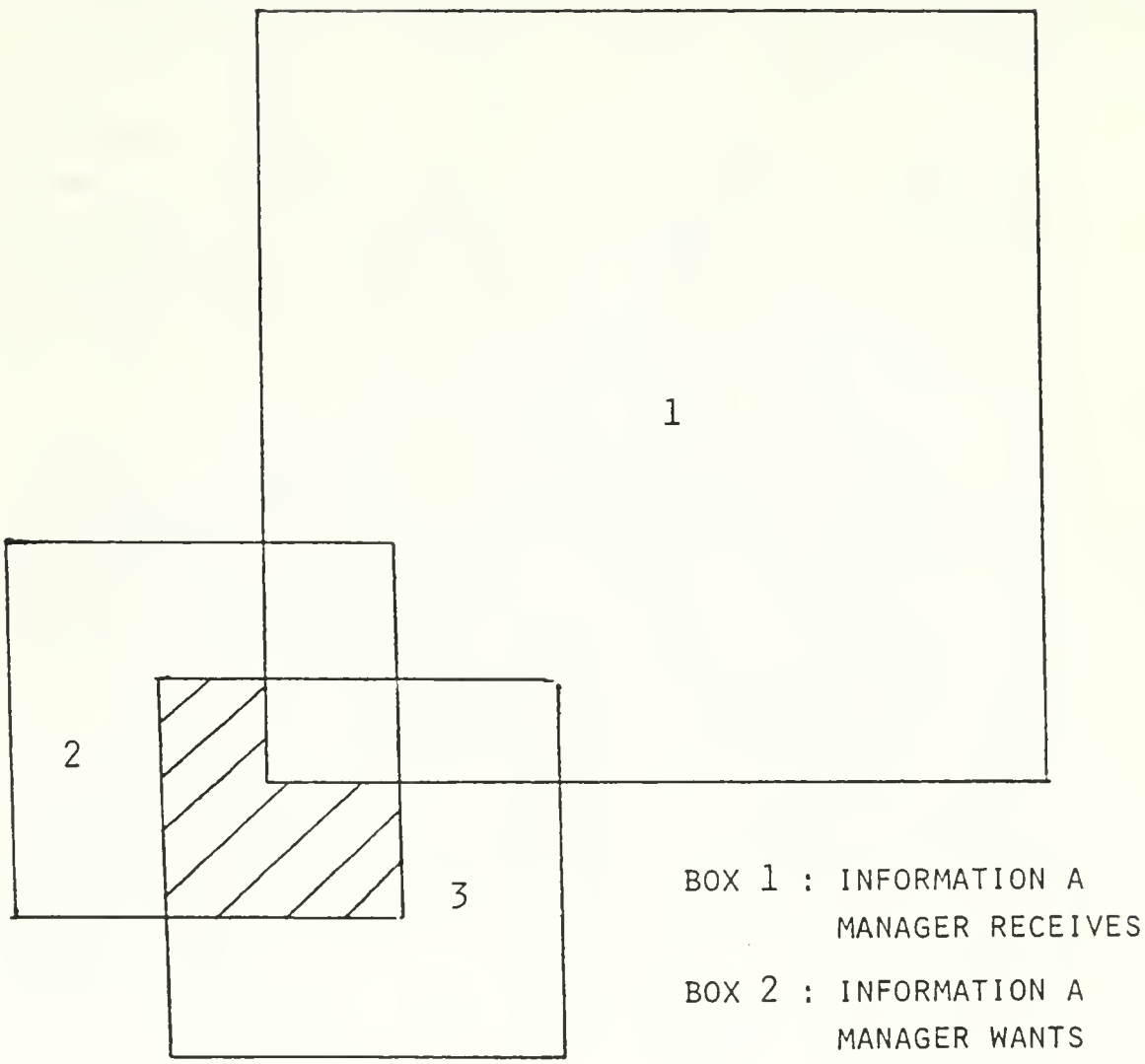

FIG 3 : INFORMATION MANAGERS RECEIVE, WANT AND NEED

needs that are currently not met and it is on this area that the search for intelligence must focus, at least initially. Converting the cognitive maps or interpretation systems of managers so that they want what is really needed must be one of the objectives of the environmental analysis function, but it should be a long term objective to be achieved incrementally, gradually chipping away at the margin. This will make environmental intelligence much more use-driven instead of being either need or availability driven.

4. Making Environmental Analysis More Business-oriented :

I have repeatedly heard the argument, both from business academics and from managers that environmental analysis is a form of training that gradually makes a firm more analytically oriented and more responsive to external change. The activity is therefore useful even if the intelligence is not directly used. This is an important argument and there can clearly be "mind-stretching" benefits arising from the organizational processes of environmental monitoring. But the trouble with making such benefits an explicit objective is that it leads to self-defeating rationalizations -- both on the part of intelligence staff who find no visible results of their efforts, and top managers who see no direct returns from the resources invested in the intelligence function but are unwilling to cut back because of a vague feeling that information is always useful. Such rationalizations severe the feedback loops between environmental analysis and the mainstream of the firm's business and such feedback is required to prevent the intelligence function from becoming an academic exercise. Providing useful information must be the principal objective of the environmental intelligence system. The corporate intelligence unit must strive to earn its legitimacy on the ground of directly supporting business performance and not on assumed and untestable claims of changing the organization's culture or orientation. This is not to claim that the process

benefits of intelligence-gathering do not exist but to highlight that those benefits can be achieved only if this principal objective is effectively attained.

CONCLUDING NOTE : U.S. FIRMS -- BEWARE

At the beginning of this paper I had argued that environmental intelligence is rapidly becoming a major source of competitive advantage in an era of global competition among firms that are increasingly similar in technological and managerial competencies and in the size and scope of their operations. In conclusion, let me sound the warning that in building effective intelligence systems, U.S. firms start from a considerable disadvantage.

In this country, perhaps more than anywhere else, the term "intelligence" has a very unsavory connotation when used in the context of corporate activities. It triggers images of intrigues and covert activities that responsible firms are not expected to indulge in. This is unfortunate because intelligence building is an essential activity for all organizations and illegitimate modes of acquiring information are extremely rare. But, given the connotation, many firms in the U.S. have thrown away the baby along with the bathwater and have avoided any explicit action to build corporate intelligence systems. The problem has been exacerbated by the fear of anti-trust laws and many firms, occupying dominant positions in their industries, have meticulously avoided any mention of intelligence, particularly competitor intelligence, anywhere within the organization.

Firms in other countries, particularly those in Japan, have always considered effective intelligence as a key corporate resource and have built up extensive organizational systems for

monitoring customers, competitors, technologies, governmental actions and other long-term socio-political developments. Today, as intelligence have become increasingly important, these investments are paying off for them while many American corporations have not even started putting a comprehensive intelligence system in place.

Past U.S. hegemony in most major industries is another reason for the relative underdevelopment of intelligence systems in American corporations. Traditionally, U.S. firms had no need to monitor anything except other U.S. corporations and therefore had no experience of scanning beyond their home-shores. On the other hand, it has been normal practice for firms not only in Japan but also in Europe to monitor developments in the United States. In that process they have learnt the arts of multinational scanning and environmental analysis. With the emergence of global competition, this past history has become a liability for the American companies and an asset for their global competitors.

Besides, American corporations have usually taken a very fragmented and narrow view of environmental intelligence. Up to the 70's, reacting to the wave of expropriations in the 60's and the oil crisis of '73, most U.S. corporations focused their environmental analysis efforts only on the regulatory environments, particularly in developing countries. Since then, inundated by the tidal wave from Japan, they have switched to monitoring competitors and technologies as their sole environmental intelligence gathering activity. Both European and Japanese firms, in contrast, have usually taken a broader and more comprehensive approach, monitoring both the immediate competitive environment as well as the larger social, political, technological and economic environments in which they operate.

I am not suggesting that this is true for all U.S. corporations. Some of them such as IBM and GE have developed

environmental intelligence systems that are the envy of their competitors all over the world. But, in general, gathering environmental intelligence quickly and accurately is not a strong point of the typical American firm. Unfortunately, even now the realization of this shortcoming seems to be limited. To develop an effective intelligence system takes time for it involves internal processes that are complex, interactive and often contradictory. For the firms that have not yet started putting such a system in place, it is perhaps not too late yet but soon it might be.

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